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CHINA'S RELATIONS WITH NORTH AFRICA: TRADE AND INVESTMENT

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Abstract: **It is no doubt that, the economic relations between China and North African economies (Algeria, Egypt, Libya, Morocco and Tunisia) are expanding rapidly in recent years as both an important trading partner and increasingly as an investor into the region. Few studies however have focused on the grasping of this trade and investment relationships. The main objective of this paper is to provide a brief overview of the nature of Chinese trade and foreign direct investment to date in North African countries through the available data. In order to achieve the objectives of the paper, the authors conducted a survey of China-North African trade and investment patterns across the region. In the light of the pool of literature and availability of data, the research relied on qualitative methods to analyze the composition of trade between China and North African countries. Results showed that China's exports into North Africa countries have been far greater than its imports from the region, resulting in a large trade surplus in favor of China. The research clearly showed that many international Chinese companies invest in North Africa in many sectors ranging from cars, telecom, construction, electronics and financial services to oil and gas.**

Keywords: **China, North Africa, International trade, FDI.**

I. INTRODUCTION

China's growth and its capacity to move in thirty years from under-development and extreme poverty to an emerging global power and one of the largest exporter of manufactured goods has attracted the attention of many developing countries. China's rising involvement in Africa in general and North African economies in particular is part and parcel of its growing share of trade and investment worldwide. Historically, diplomatic relations between China and North Africa date back to 1950s. Egypt was the first African country to enter into diplomatic relations with the People's Republic of China, in 1956.

China is becoming a growing force in global investment and trade with developing countries. Chinese government has encouraged investment in Africa as a way to strengthen trade ties. Trade and investment between China and North Africa has increased at unprecedented rates in last years. In 2000, the total trade between China and the region had reached a value of US$1.4 billion. By 2012, the corresponding value had increased to almost US$20.5 billion — an annual growth rate more than 100 per cent. This trend is expected to continue, according to the increase in China's demand for oil and energy sector. China is now a major buyer of oil from North African countries and in the same time China considers a major importer for North Africa market.

China's 'going global' strategy is explicitly encouraging Chinese companies to invest overseas and to increase cooperation with other emerging economies. China is seeking to increase its 'soft power' and build positive diplomatic relations with other countries — increasing investment and strengthening trade ties with particular countries, while not undermining other states' sovereignty.

The Chinese government has adopted diplomatic and trade measures with Africa in general and North Africa in particular to drive economic growth and development, guarantee long-term supply of raw materials and enhance its soft power.

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China's presence in North African countries as an investor has generally been very well perceived. The population views the developments as an inevitable and inexorable transition from Africa's colonial past, and the local governments are eager to cooperate with China also for its abundance of foreign exchange and the flexible attitude to human rights and sensitive issues. Furthermore, it seems that China offers a different approach to development policy characterized more or less by the 'trade not aid' principle, while Beijing's declared vision of modern Africa is that of economic growth and social transformation. At the same time, African countries do not criticize China's political system and human rights record while they can provide the Asian powerhouse with virtually all natural resources that Beijing craves for – and all this without adhering to strict institutional arrangements that so often accompany EU or U.S. trade agreements.

II. EXPLORING CHINESE-NORTH AFRICAN TRADE

China's recent investments in North Africa have been preceded by a vibrant and expanding trade relationship with many North African countries over the past decade. Understanding the Chinese trading relationship with North Africa provides helpful context for the investment relationship.

The change in the trade relationship has been staggering. Trade between China and North Africa in 2000 totaled approximately US$1.6 billion; by 2012, it had grown 20 times to approximately US$31 billion. During 2000-2012, the value of Chinese exports to North Africa increased from a mere US$1.4 billion to $20.5 billion while Chinese imports from the region increased from US$213 million to US$10.7 billion during the same period (Fig. 1). At present, China is ranking among the top-ten sources of imports for the region's economy.

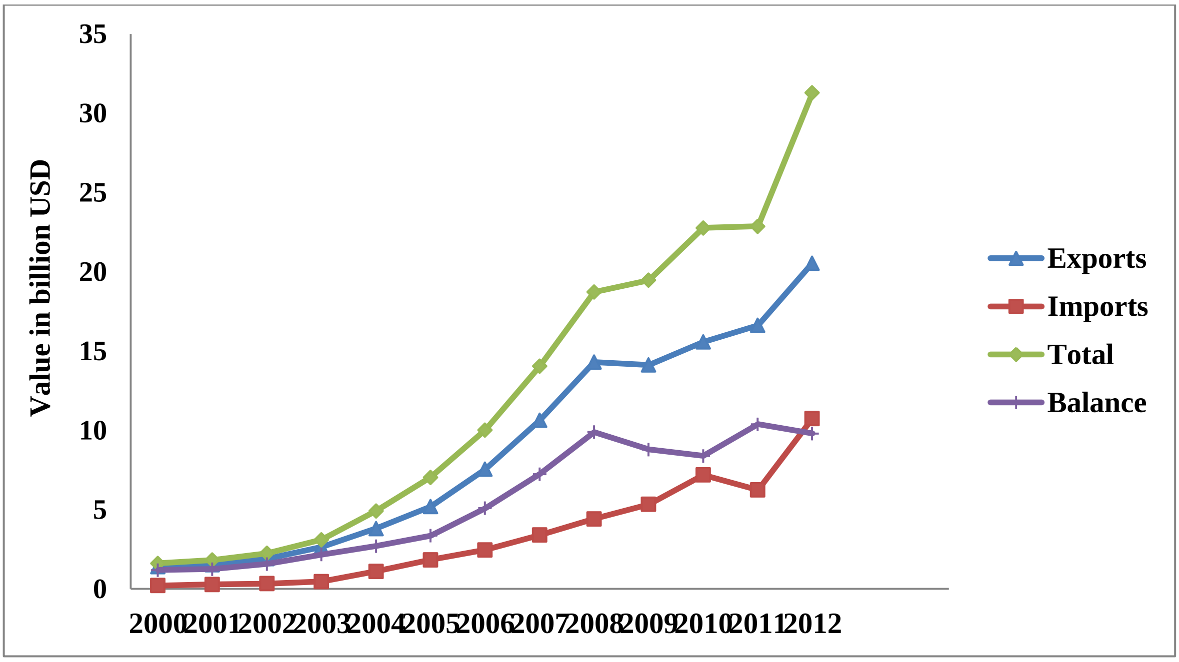

Figure 1 China-North Africa bilateral trade, 2000-2012 (in billion USD)

China's total exports to North Africa have been far greater than its imports from North Africa, resulting in a large trade surplus in favour of China. This highlights the importance of North Africa as a market for China's products.

At the disaggregate level, according to Standard International Commodity Classification (SITC Revision III) as indicated in Table 1, China's exports to North Africa have been dominated by trade in machinery and transport equipment (SITC7), manufactured goods (SITC6), Miscellaneous manufactured articles (SITC8), chemicals and related products (SITC5), and food and live animals (SITC0). These five commodity groups together calculated for more than 95 percent of China's exports to North Africa during the period 2000-2012. The most exportable products from China to the region are machinery and transport equipments. Its share of 20% in total in 2000 has shrunk sharply to roughly 43 percent in 2008 and reached 36 percent in 2012. Manufactured goods are the second most important products of China's exports to the region with 30 percent in 2012. Although the share of food and live animals in exports to the region has been declining from 9 percent in 2000 to 2.6 percent in 2012, it still has an importance in China's exports to North Africa countries.

Table 1 Percent Distribution of China's Exports to North Africa by Main Commodity Groups

SITC	Product Name	2000	2004	2008	2012
0	Food and live animals	9.21	4.08	2.73	2.62
1	Beverages and tobacco	0.89	1.10	0.18	0.16
2	Crude materials, inedible, except fuels	1.24	2.41	0.54	0.86
3	Mineral fuels, lubricants and related materials	0.44	0.06	0.19	0.09
4	Animal and vegetable oils, fats and waxes	0.00	0.00	0.05	0.01
5	Chemicals and related products, n.e.s.	6.49	4.98	5.30	5.42
6	Manufactured goods classified chiefly by material	26.50	26.70	30.17	29.57
7	Machinery and transport equipment	20.10	29.40	43.28	35.55
8	Miscellaneous manufactured articles	34.46	29.35	17.54	25.72
9	Commodities not classified elsewhere in the SITC	0.66	1.92	0.04	0.01

Source: Author's calculations based on data extracted from World Integrated Trade Solution (WITS)

Table 2 Percent Distribution of China's Imports from North Africa by Main Commodity Groups

SITC	Product Name	2000	2004	2008	2012
0	Food and live animals	2.00	0.71	0.27	0.21
1	Beverages and tobacco	0.00	0.00	0.00	0.01
2	Crude materials, inedible, except fuels	29.28	12.37	6.01	5.22
3	Mineral fuels, lubricants and related materials	35.74	57.79	80.98	88.80
4	Animal and vegetable oils, fats and waxes	0.00	0.00	0.01	0.05
5	Chemicals and related products, n.e.s.	9.23	6.23	4.12	1.83
6	Manufactured goods classified chiefly by material	7.91	8.03	0.72	0.52
7	Machinery and transport equipment	15.71	14.56	6.74	2.11
8	Miscellaneous manufactured articles	0.12	0.30	1.14	1.27
9	Commodities not classified elsewhere in the SITC	0.00	0.00	0.00	0.00

Source: Author's calculations based on data extracted from World Integrated Trade Solution (WITS)

Table 2 presents the percent distribution of Chinese imports from North Africa. It is clear from the table that China's major imported products from the region are mineral fuels and lubricants (SITC3). These products started to attract Chinese market after 2004 (58 percent) while they amounted to 89 percent of China imports from North Africa in 2012. The same table also shows that the share of China's imports from North Africa in all categories except SITC3 has witnessed a continuous decline across the periods analyzed.

III. CHINA'S OVERSEAS FOREIGN DIRECT INVESTMENT (OFDI)

China today is considering one of the top countries whether in FDI inflows or FDI outflows. In recent years, in line with China's Going Out strategy announced in 2000, China's overseas investment activities have increased greatly and at increasing rates. By the end of 2012, the total value of China's outward foreign direct investment (OFDI) had reached US$88 billion (MOFCOM, NBS and SAFE 2013). Policies have played strong supporting roles in bringing about this trend by facilitating and encouraging Chinese companies to make overseas investments.

Starting with a long-term trend of China's outward investment in Fig. 2, we can see China had not been active in global markets until the beginning of the new millennium – more specifically until 2002 when it initiated its 'going global' policy promoting overseas investment. The policy was conceived to compete for a share in the global market and resources. Because of adopting these new strategy, China's outward foreign direct investment (OFDI) rose from mere US$911 million in 2000 to US$88 billion in 2012.

It is clear from figure 2 also that China's OFDI in 2002 was decreased to US$2.5 billion in comparison with US$ 7 billion in 2001, but since 2002 till now it has been rising rapidly and steadily.

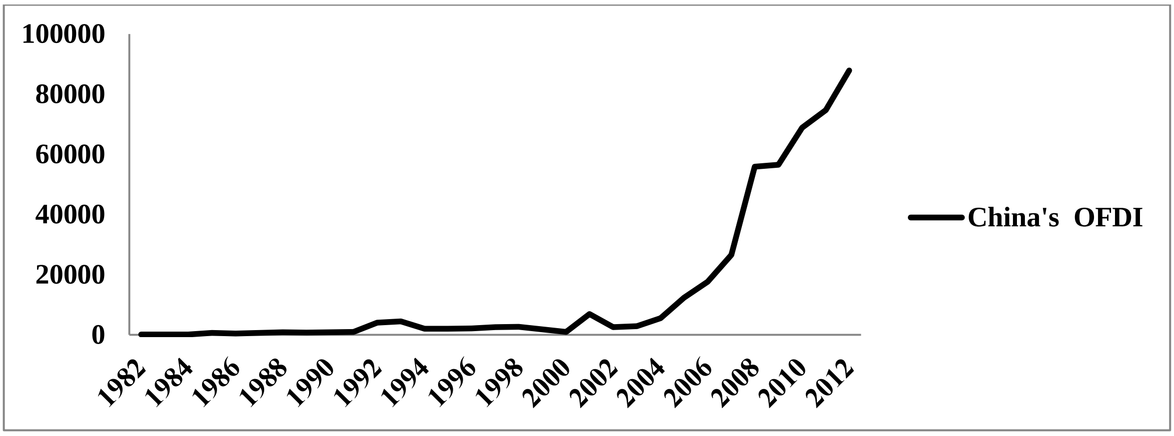

Figure 2 General trend of China's OFDI 1982-2012 (in million dollars)

IV. GENERAL FEATURES OF FDI IN NORTH AFRICA

Though North Africa's primacy has been challenged by the growing prominence of Western Africa as an increasingly attractive investment destination, the Maghreb has still notched very high score among all African regions. In 2012, there were three North African countries – Egypt, Libya and Algeria – among the top ten African destinations for Chinese FDI, with Algeria being the second on the list. As presented in Fig. 3, the annual flow of foreign direct investment inflows to Northern Africa excluding Sudan remained well below US$10 billion until 2005, making the region an odd outlier on the African investment map. During the period from 1971 to 2002 North Africa witnessed great volatility of FDI inflows, but after 2002 the region got on a relatively safe path. Since then, inward FDI to North Africa was rising sharply until 2007, where FDI inflows reached its peak to be US$ 21 billion. After then, FDI inflows decreased sharply to reach only US$ 9 billion in 2012, as a result of financial crisis in 2008 and the Arab Spring revolutions in North Africa countries (Egypt, Tunisia, and Libya) in 2011.

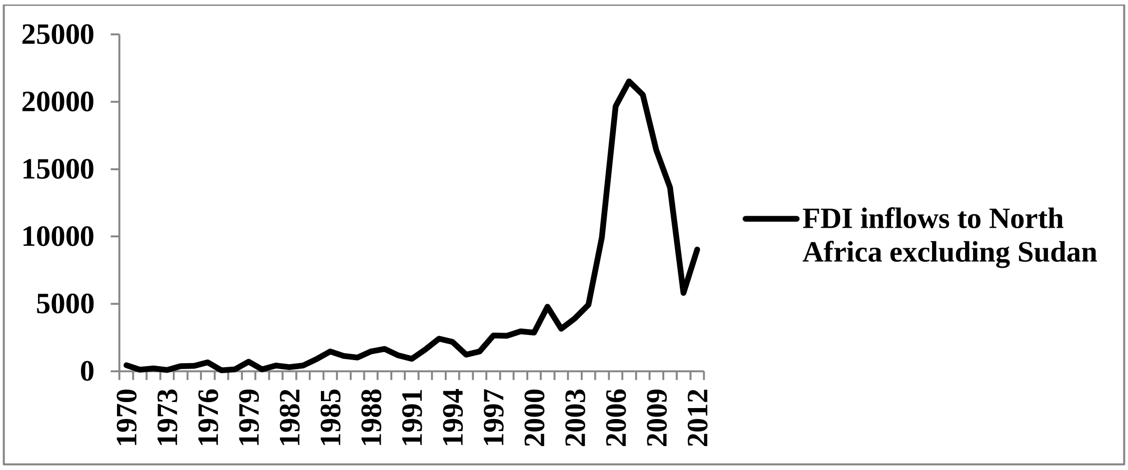

Figure 3 North Africa's (excluding Sudan) FDI inflows 1970-2012 (in million USD)

V. CHINA'S FDI OUTFLOWS IN NORTH AFRICA

In 2013 China's investment in North Africa focuses primarily on three countries (Table 3); namely Algeria, Egypt and Libya. According to China's Global Reach of the Heritage Foundation, most of China's investments in Algeria and Libya are in transportation and real estate sectors. Energy sector has a large proportion of China's investments in Egypt. Chinese investment in North African countries has generally been observed in recent years. Table 4 explores some examples of Chinese investments in North Africa. It is clear that international Chinese companies invest in North Africa in many sectors ranging from cars, telecom, construction, electronics and financial services to oil and gas.

Table 3 China's Investment in North Africa Countries (2013, in billion dollars)

Country	Metal	Transportation	Real Estate	Energy	Other	Total
Algeria	-	10.50	3.00	0.39	-	13.9
Egypt	0.94	0.37	1.20	5.40	0.23	8.10
Libya	-	2.60	0.400		-	3.00
Morocco	-	0.50	-	-	-	0.50

Source: China's Global Research of the Heritage Foundation

Table 4 Examples of China's investments in North Africa

Country	Sector	Company
Algeria	Car Manufactureres or suppliers	Divmac + Pinto Brasil
	Car manufacturers or suppliers	JAC
	Electric, electronic & medical hardware	China Great Wall Computer Shenzhen
	Energy	China National Offshore Oil Company
	Glass, cement, minerals, wood, paper	Shaolin
Egypt	Bank, insurance, other financial services	China Development Bank
	Electric, electronic & medical hardware	Midea
	Public works, real estate, utilities	Teda
Morocco	Consulting and services to companies	ICCM
Tunisia	Car manufacturers or suppliers	SAIC / SsangYong
	Mechanics and machinery	China National Construction Machinery
	Car manufacturers or suppliers	Bajaj Auto

VI. CONCLUSION

China and North Africa (Algeria, Egypt, Libya, Morocco and Tunisia) have been enjoying solid economic relations which date back to 1950s. The volume of Chinese total trade whether exports or imports with North Africa has increased remarkably since 2000, particularly in the last few years. China's exports into North Africa have been far greater than its imports from the region, resulting in a large trade surplus in favor of China. The main products China exports to North Africa are machinery and transport equipments, and manufactured goods. On the other hand, the main products China imports from the region are Mineral fuels, where in 2012 about 90 percent of China's imports from North Africa were oil. China became a major importer for North Africa in recent year but it is not a main destination of the region's exports.

In recent years, in line with China's Going Out strategy announced in 2000, China's overseas investment activities have increased greatly and at increasing rates. By the end of 2012, the total value of China's outward foreign direct investment (OFDI) had reached US$88 billion. On the other hand, during the period from 1971 to 2002 North Africa witnessed great volatility of FDI inflows, but after 2002 the region got on a relatively safe path. Since then, inward FDI to North Africa was rising sharply until 2007, where FDI inflows reached its peak to be US$ 21 billion. After that. FDI inflows decreased sharply to reach only US$ 9 billion in 2012, as a result of financial crisis in 2008 and the Arab Spring revolutions in North Africa countries (Egypt, Tunisia, and Libya) in 2011. The main Chinese investments in Algeria and Libya are in transportation and real estate sectors. Energy sector has a large proportion of China's investments in Egypt.

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